REPORT OF EXAMINATION
OF THE

AUTOMOBILE CLUB OF SOUTHERN
CALIFORNIA LIFE INSURANCE COMPANY

AS OF
DECEMBER 31, 2006

Filed February 11, 2008

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Los Angeles, California
November 16, 2007

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

AUTOMOBILE CLUB OF SOUTHERN CALIFORNIA
LIFE INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 17250 Newburgh Road, Suite 100, Livonia, Michigan 48152. The Company's statutory home office and main administrative office is located at 3333 Fairview Road, Costa Mesa, California 92626.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2006, as deemed necessary under the circumstances.

The examination was conducted concurrently with the examination of the Interinsurance Exchange of the Automobile Club (Exchange). The Exchange has a 50% ownership interest in the Company. In addition to those items specifically commented upon in this report, other phases of the Company’s operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers’, employees’, and agents’ welfare and pension plans; growth of company; business in force by states; accounts and records; and sales and advertising.

COMPANY HISTORY

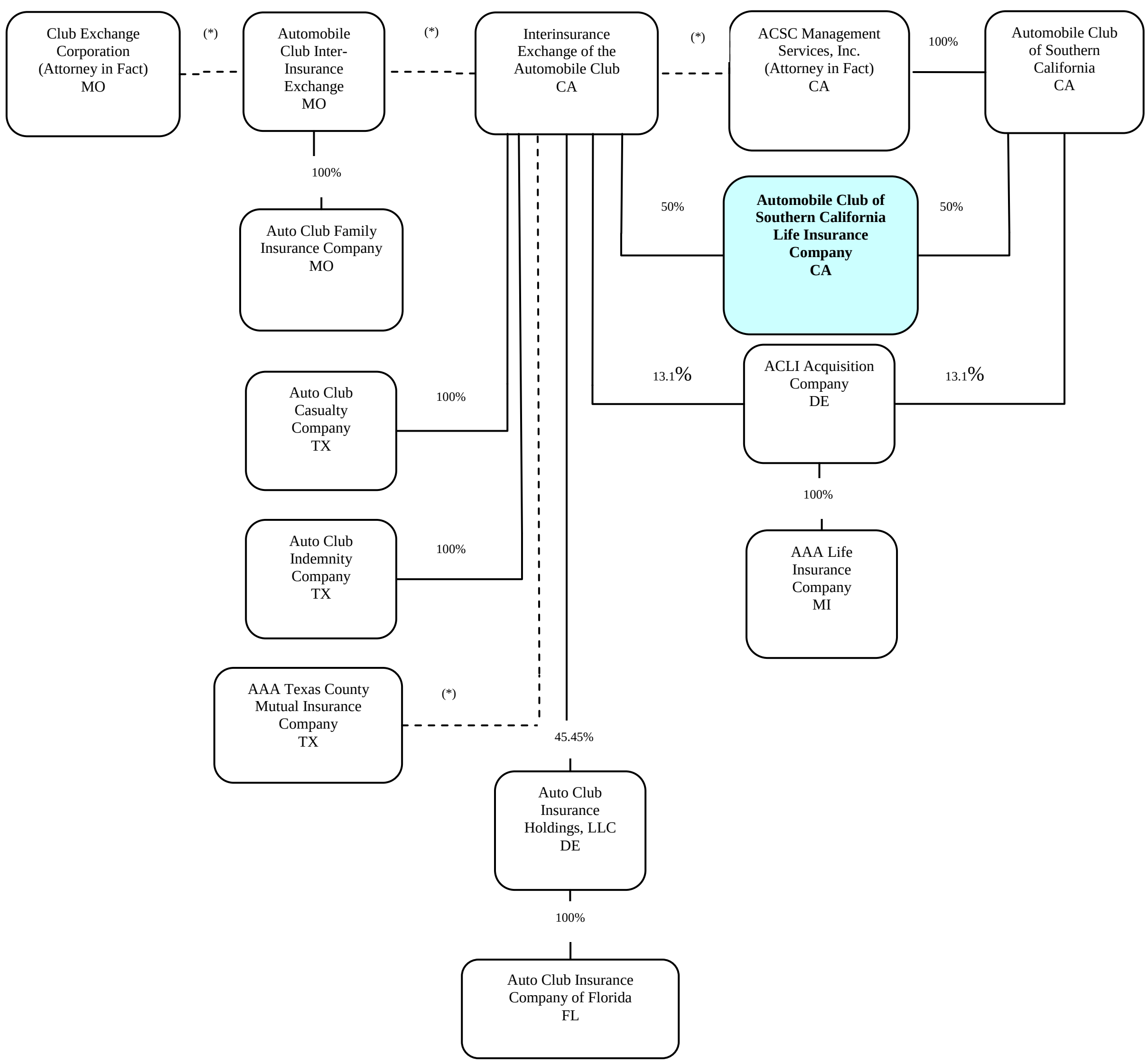
The Company was incorporated under the laws of California in July, 1998 and commenced business in December, 1999. The Company is owned 50% each by the Automobile Club of Southern California (Club), a California nonprofit mutual benefit corporation and the Interinsurance Exchange of the Automobile Club (Exchange), a California reciprocal. The Club is the ultimate controlling entity of the insurance holding company system that includes the Company and the Exchange.

The Company was formed for the purpose of reinsuring the life insurance products sold through the Club's life insurance agency operations and underwritten by AAA Life Insurance Company (AAA), an affiliated Michigan insurance company. Prior to the admission of AAA as a licensed insurer in California in 2000, the business was underwritten by the Auto Club Life Insurance Company, also an affiliated Michigan insurance company.

During the examination period, the Company received capital contributions from its parents of $2.8 million, $5.1 million and $21.5 million for 2004, 2005 and 2006, respectively. The capital contributions are a result of a commitment letter whereby its parents agreed to contribute, in equal amounts, the necessary capital in order to maintain the Company’s minimum required risk-based capital ratio of 250%.

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary insurance companies, depicts the Company's relationship within the holding company system:



(*) Contractual or other relationship to operate the company.

Management of the Company is vested in a four-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2006 follows:

Directors

Name and Residence	Principal Business Affiliation
Robert T. Bouttier Laguna Niguel, California	Vice President Automobile Club of Southern California Life Insurance Company
John F. Boyle Coto De Caza, California	Vice President Automobile Club of Southern California Life Insurance Company
Thomas V. McKernan, Jr. Arcadia, California	President and Chief Executive Officer Automobile Club of Southern California Life Insurance Company
Christian E. Simonsen ** Costa Mesa, California	Vice President, Chief Financial Officer and Treasurer Automobile Club of Southern California Life Insurance Company

Principal Officers

Name	Title
Thomas V. McKernan, Jr.	President and Chief Executive Officer
Gail C. Louis	Secretary
Christian E. Simonsen **	Vice President, Chief Financial Officer and Treasurer
Robert T. Bouttier	Vice President
John F. Boyle	Vice President
Avery R. Brown	Vice President and Assistant Secretary
James Gilmartin	Vice President
Sharon B. Neiman	Vice President

** Christian E. Simonsen resigned as of August 16, 2007. John Boyle replaced him as CFO on September 20, 2007 and Christopher M. Baggaley replaced him as a Board member on September 20, 2007.

Management and Service Agreements

Expense Sharing Agreement: On December 15, 1999, the Company entered into an expense sharing agreement with the following affiliated companies: AAA Life Insurance Company (AAA Life), Auto Club Life Insurance Company, (ACL), (Michigan), ACLI Acquisition Company (ACLI), Pacific Beacon Life Reassurance Company (Hawaii), and AAA Life Re., Ltd (Bermuda). Under the terms of the agreement, the parties, on an annual basis, agree upon a unit charge to be applied to each new policy written and each inforce policy. The unit charge is based upon expense assumptions used in pricing each product and includes administration, underwriting, and marketing costs and expenses incurred by AAA Life, ACL, and ACLI for policies reinsured by any party to the agreement. The total expense allocation for each reinsurer is computed as the unit charge for each policy written by ACL or AAA Life, and multiplied by the reinsurance percentage set forth in the applicable reinsurance agreement. Adjustments are made on a quarterly basis to assure the estimated expenses reasonably approximate actual expenses.

During the examination period, the Company paid the following fees to AAA Life under this agreement: $10.2 million in 2004, $12.5 million in 2005 and $14.6 million in 2006. The Company submitted this agreement for approval to the California Department of Insurance and it is still being reviewed as of the date of this report.

Investment Management Agreement: The Company has investment management agreements with BlackRock Financial (BF), Dwight Asset Management Company (DA), and Lehman Brothers Asset Management (LEH). All three managers are non-affiliated and act as the Company’s investment management advisors for the Company’s cash, cash equivalents and fixed income securities. The investment or reinvestment of the Company’s securities is administered pursuant to the Company’s investment guidelines. As compensation, the investment managers receive a percentage of the market value of the managed investments.

The Company paid investment management fees under the terms of these agreements as follows: $264,335 in 2004, $317,620 in 2005, and $371,523 in 2006.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact life and accident and health insurance in California. The Company does not directly underwrite any life insurance risks or directly issue any life or annuity policies. During the examination period, the Company primarily assumed life insurance and annuity business from its affiliate, AAA Life Insurance Company (AAA Life). Prior to 2000, the Company assumed business from its affiliate, Auto Club Life Insurance Company. All premiums assumed by the Company are generated through the life insurance agency operations of the Automobile Club of Southern California.

LOSS EXPERIENCE

With the exception of 2004, the Company has reported net losses since its inception. The following schedule reflects net operating gains and losses and net gains and losses from 2004 through September 30, 2007 as reported by the Company:

Year	Net Operating Gain/(Loss)	Net Gain/(Loss)
2004	$ 946,241	$ 989,617
2005	$ (5,036,838)	$ (5,200,889)
2006	$ (12,520,834)	$ (12,496,462)
2007*	$ (7,548,873)	$ (7,689,350)
Totals	$ (24,160,304)	$ (24,397,084)

(*) Through September 30, 2007

In total, through September 30, 2007, the Company reported net operating losses and net losses of $24.2 million and $24.4 million, respectively. The Company's operating losses and net losses are primarily due to the first year costs associated with new business production.

Initially, the Company projected operating losses in its business plan until 2005; however, more recent projections have indicated that losses will continue through 2012.

In order to maintain its capital position, the Company has received $40.6 million (including $11.2 million in 2007) in capital contributions from its parent under the terms of a commitment letter. The California Department of Insurance (CDI) requested the commitment letter from the parent companies. Under the terms of the commitment letter, the Interinsurance Exchange of the Automobile Club, and the Automobile Club of Southern California each committed to pay 50% of the capital contributions to the Company, in order for it to maintain a minimum risk-based capital ratio of 250%. The previous commitment letter was dated August 22, 2005. The current commitment letter was submitted to the CDI on July 26, 2007. The commitment letter will expire on December 31, 2011 and will be renewed if necessary.

REINSURANCE

Assumed

On December 15, 1999, the Company entered into a retroactive reinsurance agreement to assume 80% of the life and annuity business produced by the Automobile Club of Southern California (Club) agency operations and written by Auto Club Life Insurance Company (ACL), a Michigan domiciled insurer. The reinsurance is on a coinsurance basis for traditional insurance products and a modified coinsurance basis for interest-sensitive products. This agreement extended to new business sold through early 2000, at which time AAA Life Insurance Company (AAA) began writing new business sold by the Club. This agreement was approved by the California Department of Insurance (CDI) on October 8, 2002.

In January 2000, the Company entered into a reinsurance arrangement with AAA, also a Michigan domiciled insurer, to assume 80% of the California business underwritten by AAA. This reinsurance arrangement effectively replaced the Company's arrangement with ACL. The reinsurance agreement is on a coinsurance basis. In 2005 the assuming rate increased from 80% to 90%. The CDI approved the assuming rate increase on February 18, 2005.

As of December 31, 2006, the Company had assumed premiums of approximately $61.1 million, aggregate reserves of $278.3 million and amounts payable on paid and unpaid claims of $4.0 million under the terms of these reinsurance agreements.

Ceded

The Company does not have any ceded reinsurance.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2006

Reconciliation of Capital and Surplus
from December 31, 2003 through December 31, 2006

Statement of Financial Condition
as of December 31, 2006

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 272,891,075	$	$ 272,891,075	
Preferred stocks	315,636		315,636	
Cash and short-term investments	29,133,597		29,133,597	
Contract loans	561,225	135,200	426,025	
Other invested assets	34,924		34,924	
Receivables for securities	105,889		105,889	
Investment income due and accrued	3,206,613		3,206,613	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	487,482		487,482	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	7,295,376		7,295,376	
Reinsurance:				
Other amounts receivable under reinsurance contracts	3,216,639		3,216,639	
Current federal and foreign income tax recoverable and interest thereon	25,000		25,000	
Net deferred tax asset	11,956,473	11,939,939	16,534	
Total assets	$ 329,229,929	$ 12,075,139	$ 317,154,790	

Liabilities, Capital and Surplus				
Aggregate reserve for life contracts			$ 274,833,857	(1)
Aggregate reserve for accident and health contracts			1,811,304	(1)
Liability for deposit-type contracts			1,619,870	(1)
Contract claims:				
Life			3,364,055	(1)
Accident and health			649,136	(1)
Premiums and annuity considerations for life and accident and health contracts received in advance			135,897	
Interest maintenance reserve			4,647,360	
Commissions and expense allowances payable on reinsurance assumed			24,577	
General expenses due or accrued			338,006	
Unearned investment income			14,717	
Miscellaneous liabilities:				
Asset valuation reserve			1,061,560	
Payable to parent, subsidiaries and affiliates			2,570,674	
Payable for securities			88,214	
Total liabilities			291,159,227	
Common capital stock		$ 2,600,000		
Gross paid-in and contributed surplus		63,700,000		
Unassigned surplus		(40,304,437)		
Capital and surplus			25,995,563	
Total liabilities, capital and surplus			$ 317,154,790	

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2006

Summary of Operations

Premiums and annuity considerations	$ 61,098,934	
Net investment income	13,717,065	
Amortization of interest maintenance reserve	525,416	
Charges and fees for deposit-type contracts	14,426	
Aggregate write-ins for miscellaneous income	7,871,407	
Total		$ 83,227,248
Death benefits	$ 6,074,107	
Annuity benefits	6,270,243	
Disability benefits and benefits under accident and health policies	985,637	
Surrender benefits and withdrawals for life contracts	20,919,412	
Group conversions	22,428	
Interest and adjustments on contract or deposit-type contract funds	421,538	
Increase in aggregate reserves for life and accident and health contracts	38,329,718	
Total	$ 73,023,083	
Commissions and expense allowances on reinsurance assumed	6,944,672	
General insurance expenses	13,613,747	
Insurance taxes, licenses and fees, excluding federal income taxes	644,824	
Increase in loading on deferred and uncollected premiums	929,847	
Total		95,156,173
Net loss from operations before federal income taxes		(11,928,925)
Federal and foreign income taxes incurred		591,909
Net loss from operations after federal income taxes		(12,520,834)
Net realized capital gains		24,372
Net loss		$ (12,496,462)

Capital and Surplus Account

Capital and surplus, December 31, 2005		$ 17,928,500
Net loss	$ (12,496,462)	
Change in net unrealized capital gains	12,411	
Change in net deferred income tax	4,861,576	
Change in nonadmitted assets and related items	(5,235,947)	
Change in assets valuation reserve	(574,515)	
Surplus adjustment Paid in	21,500,000	
Net change in capital and surplus for the year		8,067,063
Capital and surplus, December 31, 2006		$ 25,995,563

Reconciliation of Capital and Surplus
from December 31, 2003 through December 31, 2006

	Gain in Surplus	Loss in Surplus	
Capital and surplus, December 31, 2003 per Examination			$ 14,392,987
Net loss	$	$ 16,707,734	
Change in net unrealized capital gain	25,636		
Change in net deferred income tax	4,534,441		
Change in nonadmitted assets		4,613,107	
Change in asset valuation reserve		1,036,660	
Change in surplus adjustments: Paid in	29,400,000		
Totals	$ 33,960,077	$ 22,357,501	
Net increase in capital and surplus			11,602,576
Capital and surplus, December 31, 2006, per Examination			$ 25,995,563

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Aggregate Reserve for Life Contracts
(1) Aggregate Reserve for Accident and Health Contracts
(1) Liability for Deposit-Type Contracts
(1) Contract Claims - Life
(1) Contract Claims - Accident and Health

The California Department of Insurance (CDI), pursuant to California Insurance Code (CIC) Section 733(g), retained an independent actuary for the purpose of providing an actuarial evaluation of the Company's above captioned reserves. Based on the independent actuary's work performed and the review of their work by a Life Actuary from the CDI, the Company's December 31, 2006 reserves were determined to be reasonably stated and have been accepted for purposes of this examination.

The Company's life insurance reserves arise from reinsurance assumed from Auto Club Life Insurance Company (ACL) and AAA Life Insurance Company (AAA). For issues of 2004 and earlier, the Company reinsures 80% of the net retention of the writing companies for business produced by the Company's affiliated agencies. The coinsurance percentage rose to 90% for issues of 2005 and later. Traditional life and group life are reinsured on a coinsurance basis. The reinsurance of interest sensitive products issued by AAA was transferred from a modified coinsurance basis to a coinsurance basis in 2004. The Company still assumes interest sensitive products written by ACL on a modified coinsurance basis.

The Company's reported life reserves as of December 31, 2006 were as follows:

Life Insurance	$ 39,307,502
Annuities	234,816,974
Accidental Death	1,896
Disability – Active Lives	10,429
Disability – Disabled Lives	43,421
Miscellaneous	653,634
Total	$274,833,856

The life reserves consist of the following:

Traditional Ordinary Assumed	$26,893,297
Universal Life Assumed	10,088,806
Group Assumed	2,325,399
Total	$39,307,502

The bulk of the traditional business is level premium renewable term. The policies issued prior to 2000 are reserved on a unitary basis and those issued in 2000 and later are reserved using X factors. Despite the use of X factors, significant deficiency reserves develop. These deficiency reserves are included in the Annual Statement, Exhibit 5, Part 1.

The affiliated direct writing company cedes a portion of its term business to unaffiliated reinsurers on a yearly renewable term basis. Although the direct reserve is calculated using smoker/nonsmoker select mortality, the reinsurance reserve credit of ½ cx is calculated using unismoke, ultimate rates. While the use of unismoke mortality does not produce an inherent bias, the use of select mortality in the direct reserve and ultimate mortality in the ceded reserve results in an overstatement of the reserve credit for the direct writing company and ultimately the net reserve is understated. As a result, the Company's assumed reserves are understated. While this amount is not material, it will grow with increased business. It is recommended that the Company request that the affiliated direct writing company change its ceded reserve calculation to coincide with the direct reserve calculation. Based upon information received after the on-site examination was completed, the Company indicated that their new 2007 valuation system now has the ability to calculate the reserve credit correctly. This was implemented effective with financial statements beginning September 30, 2007.

The annuity reserves largely pertain to single premium deferred annuities assumed from AAA ($233,649,602). The reserve held amounts to 95.5% of the account value.

It was noted during the review that the interest rate printed on the policyholder statements is sometimes incorrect, though the correct interest rate was being credited to the contract. The

Company was aware of this problem and, subsequent to the on-site examination, has made the necessary system changes so that the correct interest rate is printed on policyholder statements.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Aggregate Reserve for Life Contracts (Page 12): It is recommended that the Company request that the affiliated direct writing company change its ceded reserve calculation to coincide with the direct reserve calculation. Based upon information received after the on-site examination was completed, the Company indicated that their new 2007 valuation system now has the ability to calculate the reserve credit correctly. This was implemented effective with financial statements beginning September 30, 2007.

It was noted during the review that the interest rate printed on the policyholder statements is sometimes incorrect, though the correct interest rate was being credited to the contract. The Company was aware of this problem and, subsequent to the on-site examination, has made the necessary system changes so that the correct interest rate is printed on policyholder statements.

Previous Report of Examination

There were no comments or recommendations in the prior report.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees of the Automobile Club of Southern California and AAA Life Insurance Company during the course of this examination are hereby acknowledged.

Respectfully submitted,

/s/

Hilary C. Solomon, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California